TEXTAINER GROUP HOLDINGS LTD
Form 6-K
August 11, 2016
based

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO

RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

Commission File Number 001-33725

Textainer Group Holdings Limited

(Translation of Registrant's name into English)

Century House

16 Par-La-Ville Road

Hamilton HM 08

Bermuda

(441) 296-2500

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F þ Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. Yes ¨ No þ

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable

This report contains the quarterly report of Textainer Group Holdings Limited for the three and six months ended June 30, 2016.

Exhibits

1. Quarterly Report of Textainer Group Holdings Limited for the Three and Six Months Ended June 30, 2016.

1

Exhibit 1

TEXTAINER GROUP HOLDINGS LIMITED

Quarterly Report on Form 6-K for the Three and Six Months Ended June 30, 2016

Table of Contents

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS; CAUTIONARY LANGUAGE

This Quarterly Report on Form 6-K, including the section entitled Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations", contains forward-looking statements within the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements include all statements that are not statements of historical facts and may relate to, but are not limited to, expectations or estimates of future operating results or financial performance, capital expenditures, regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "pre "potential," "continue" or the negative of these terms or other similar terminology. The forward-looking statements contained in this Quarterly Report on Form 6-K include, but are not limited to, statements regarding (i) factors that are likely to continue to affect our performance and (ii) our belief that, assuming that our lenders remain solvent, that our cash flow from operations, proceeds from the sale of containers and borrowing availability under our debt facilities are sufficient to meet our liquidity needs, including for the payment of dividends, for the next twelve months.

Although we do not make forward-looking statements unless we believe we have a reasonable basis for doing so, we cannot guarantee their accuracy, and actual results may differ materially from those we anticipated due to a number of uncertainties, many of which cannot be foreseen. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, among others, the risks we face that are described in the section entitled Item 3, "Key Information -- Risk Factors" included in our Annual Report on Form 20-F for the fiscal year ended December 31, 2015 filed with the U.S. Securities and Exchange Commission (the "SEC") on March 11, 2016 (our "2015 Form 20-F").

We believe that it is important to communicate our expectations about the future to potential investors, shareholders and other readers. However, there may be events in the future that we are not able to accurately predict or control and that may cause actual events or results to differ materially from the expectations expressed in or implied by our forward-looking statements. The risk factors listed in Item 3, "Key Information -- Risk Factors" included in our 2015 Form 20-F, as well as any cautionary language in this Quarterly Report on Form 6-K, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you decide to buy, hold or sell our common shares, you should be aware that the occurrence of the events described in Item 3, "Key Information -- Risk Factors" included in our 2015 Form 20-F and elsewhere in this Quarterly Report on Form 6-K could negatively impact our business, cash flows, results of operations, financial condition and share price. Potential investors, shareholders and other readers are cautioned not to place undue reliance on our forward-looking statements.

Forward-looking statements regarding our present plans or expectations for fleet size, management contracts, container purchases, sources and availability of financing, and growth involve risks and uncertainties relative to return expectations and related allocation of resources, and changing economic or competitive conditions, as well as the negotiation of agreements with container investors, which could cause actual results to differ from present plans or expectations, and such differences could be material. Similarly, forward-looking statements regarding our present expectations for operating results and cash flow involve risks and uncertainties related to factors such as utilization rates, per diem rates, container prices, demand for containers by container shipping lines, supply and other factors discussed under Item 3, "Key Information -- Risk Factors" included in our 2015 Form 20-F or elsewhere in this Quarterly Report on Form 6-K, which could also cause actual results to differ from present plans. Such differences could be material.

All future written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. The forward-looking statements contained in this Quarterly Report on Form 6-K speak only as of, and are based on information available to us on, the date of the filing of this Quarterly Report on Form 6-K. We assume no obligation to, and do not plan to, update any forward-looking statements after the date of this Quarterly Report on Form 6-K as a result of new information, future events or developments, except as expressly required by U.S. federal securities laws. You should read this Quarterly Report on Form 6-K and the documents that we reference and have furnished as exhibits with the understanding that we cannot guarantee future results, levels of activity, performance or achievements and that actual results may differ materially from what we expect.

In this Quarterly Report on Form 6-K, unless otherwise specified, all monetary amounts are in U.S. dollars. To the extent that any monetary amounts are not denominated in U.S. dollars, they have been translated into U.S. dollars in accordance with our accounting policies as described in Item 18, “Financial Statements” included in our 2015 Form 20-F.

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive (Loss) Income

Three and Six Months Ended June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Lease rental income	$120,223	$128,342	$242,273	$257,588
Management fees	3,294	4,010	6,638	8,027
Trading container sales proceeds	3,062	4,220	4,964	9,052
Gains on sale of containers, net	870	1,593	2,488	2,649
Total revenues	127,449	138,165	256,363	277,316
Operating expenses:				
Direct container expense	14,549	9,965	29,178	19,169
Cost of trading containers sold	3,614	3,916	6,258	8,608
Depreciation expense	51,757	44,673	104,306	88,472
Container impairment	19,484	4,685	36,776	7,855
Amortization expense	1,372	1,167	2,746	2,334
General and administrative expense	6,599	7,275	13,765	14,495
Short-term incentive compensation (benefit) expense	(93)	719	680	1,438
Long-term incentive compensation expense	1,498	1,810	3,106	3,481
Bad debt expense, net	1,837	1,116	2,986	2,542
Total operating expenses	100,617	75,326	199,801	148,394
Income from operations	26,832	62,839	56,562	128,922
Other (expense) income:				
Interest expense	(20,022)	(19,265)	(39,987)	(38,660)
Interest income	103	24	179	63
Realized losses on interest rate swaps, collars and caps, net	(2,378)	(3,228)	(4,731)	(6,094)
Unrealized (losses) gains on interest rate swaps, collars and caps, net	(5,022)	3,326	(16,199)	(2,675)

Other, net	3	13	(5)	13
Net other expense	(27,316)	(19,130)	(60,743)	(47,353)
(Loss) income before income tax and noncontrolling interests	(484)	43,709	(4,181)	81,569
Income tax expense	(797)	(1,151)	(817)	(2,635)
Net (loss) income	(1,281)	42,558	(4,998)	78,934
Less: Net (income) loss attributable to the noncontrolling interests	(176)	(2,297)	147	(3,368)
Net (loss) income attributable to Textainer Group Holdings Limited common shareholders	$(1,457)	$40,261	$(4,851)	$75,566
Net (loss) income attributable to Textainer Group Holdings Limited common shareholders per share:				
Basic	$(0.03)	$0.71	$(0.09)	$1.33
Diluted	$(0.03)	$0.70	$(0.09)	$1.32
Weighted average shares outstanding (in thousands):				
Basic	56,580	56,990	56,575	56,985
Diluted	56,580	57,160	56,575	57,169
Other comprehensive (loss) income:				
Foreign currency translation adjustments	111	(4)	(2)	(119)
Comprehensive (loss) income	(1,170)	42,554	(5,000)	78,815
Comprehensive (income) loss attributable to the noncontrolling interests	(176)	(2,297)	147	(3,368)
Comprehensive (loss) income attributable to Textainer Group Holdings Limited common shareholders	$(1,346)	$40,257	$(4,853)	$75,447

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

June 30, 2016 and December 31, 2015

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	$104,754	$115,594
Accounts receivable, net of allowance for doubtful accounts of $16,744 and $14,053 at 2016 and 2015, respectively	93,996	88,370
Net investment in direct financing and sales-type leases	107,947	87,706
Trading containers	5,012	4,831
Containers held for sale	35,346	43,245
Prepaid expenses and other current assets	18,970	8,385
Insurance receivable	6,838	11,435
Due from affiliates, net	765	514
Total current assets	373,628	360,080
Restricted cash	34,587	33,917
Containers, net of accumulated depreciation of $889,023 and $810,393 at 2016 and 2015, respectively	3,669,374	3,698,011
Net investment in direct financing and sales-type leases	258,831	243,428
Fixed assets, net of accumulated depreciation of $10,226 and $9,836 at 2016 and 2015, respectively	1,877	1,663
Intangible assets, net of accumulated amortization of $38,455 and $35,709 at 2016 and 2015, respectively	17,504	20,250
Interest rate swaps, collars and caps	-	814
Deferred taxes	1,522	1,203
Other assets	7,637	6,988
Total assets	$4,364,960	$4,366,354
Liabilities and Equity		
Current liabilities:		
Accounts payable	$11,603	$10,477
Accrued expenses	6,855	6,816
Container contracts payable	66,550	41,356
Other liabilities	278	291

Due to owners, net	5,114	11,806
Revolving credit facility	32,853	-
Term loan	30,911	31,097
Bonds payable	58,915	58,788
Total current liabilities	213,079	160,631
Revolving credit facilities	1,037,862	1,013,252
Secured debt facilities	1,045,868	1,062,539
Term loan	383,638	403,500
Bonds payable	404,979	434,472
Interest rate swaps, collars and caps	18,797	3,412
Income tax payable	9,242	8,678
Deferred taxes	10,922	10,420
Other liabilities	2,391	2,523
Total liabilities	3,126,778	3,099,427
Equity:		
Textainer Group Holdings Limited shareholders' equity:		
Common shares, $0.01 par value. Authorized 140,000,000 shares; 57,220,797 shares issued and 56,590,797 shares outstanding at 2016; 57,163,095 shares issued and 56,533,095 shares outstanding at 2015	572	572
Additional paid-in capital	388,333	385,020
Treasury shares, at cost, 630,000 shares	(9,149)	(9,149)
Accumulated other comprehensive income	(285)	(283)
Retained earnings	794,606	826,515
Total Textainer Group Holdings Limited shareholders’ equity	1,174,077	1,202,675
Noncontrolling interests	64,105	64,252
Total equity	1,238,182	1,266,927
Total liabilities and equity	$4,364,960	$4,366,354

See accompanying notes to condensed consolidated financial statements.

5

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands)

	2016	2015
Cash flows from operating activities:		
Net (loss) income	$(4,998)	$78,934
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation expense	104,306	88,472
Container impairment	36,776	7,855
Bad debt expense, net	2,986	2,542
Unrealized losses on interest rate swaps, collars and caps, net	16,199	2,675
Amortization of debt issuance costs and accretion of bond discount	3,765	4,219
Amortization of intangible assets	2,746	2,334
Gains on sale of containers, net	(2,488)	(2,649)
Share-based compensation expense	3,423	3,801
Changes in operating assets and liabilities	(13,267)	(10,996)
Total adjustments	154,446	98,253
Net cash provided by operating activities	149,448	177,187
Cash flows from investing activities:		
Purchase of containers and fixed assets	(228,073)	(370,524)
Proceeds from sale of containers and fixed assets	61,154	59,964
Receipt of payments on direct financing and sales-type leases, net of income earned	46,858	49,430
Net cash used in investing activities	(120,061)	(261,130)
Cash flows from financing activities:		
Proceeds from revolving credit facilities	153,000	159,177
Principal payments on revolving credit facilities	(95,322)	(140,321)
Proceeds from secured debt facilities	40,000	160,000
Principal payments on secured debt facilities	(58,600)	(21,500)
Principal payments on term loan	(19,800)	(19,800)
Principal payments on bonds payable	(30,115)	(30,115)
(Increase) decrease in restricted cash	(670)	17,828
Debt issuance costs	(1,550)	(4,154)
Issuance of common shares upon exercise of share options	—	194
Net tax benefit from share-based compensation awards	(110)	94
Capital contributions from noncontrolling interest	—	1,850
Dividends paid	(27,058)	(53,564)
Net cash (used in) provided by financing activities	(40,225)	69,689
Effect of exchange rate changes	(2)	(119)
Net decrease in cash and cash equivalents	(10,840)	(14,373)
Cash and cash equivalents, beginning of the year	115,594	107,067

Cash and cash equivalents, end of period	$104,754	$92,694

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

Six Months Ended June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands)

	Six Months Ended June 30,	
	2016	2015
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense and realized losses on interest rate swaps, collars and caps, net	$41,020	$41,767
Net income taxes paid	$714	$239
Supplemental disclosures of noncash investing activities:		
Increase (decrease) in accrued container purchases	$25,194	$(27,165)
Containers placed in direct financing and sales-type leases	$83,854	$63,902

See accompanying notes to condensed consolidated financial statements.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

(1) Nature of Business

Textainer Group Holdings Limited ("TGH") is incorporated in Bermuda. TGH is the holding company of a group of corporations, consisting of TGH and its subsidiaries (collectively, the "Company"), involved in the purchase, management, leasing and resale of a fleet of marine cargo containers. The Company manages and provides administrative support to the affiliated and unaffiliated owners (the "Owners") of the containers and structures and manages container leasing investment programs.

The Company conducts its business activities in three main areas: Container Ownership, Container Management and Container Resale (see Note 10 "Segment Information").

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The Company utilizes the accrual method of accounting.

Certain information and footnote disclosure normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted. The accompanying unaudited condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 20-F for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission on March 11, 2016.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of only normal and recurring adjustments) necessary to present fairly the Company's condensed consolidated financial position as of June 30, 2016, and the Company's condensed consolidated results of operations for the three and six months ended June 30, 2016 and 2015 and condensed consolidated cash flows for the six months ended June 30, 2016 and 2015. These condensed consolidated financial statements are not necessarily indicative of the results of operations or cash flows that may be reported for the remainder of the fiscal year ending December 31, 2016.

The condensed consolidated financial statements of the Company include TGH and all of its subsidiaries. All material intercompany balances have been eliminated in consolidation.

(b) Principles of Consolidation and Variable Interest Entity

The condensed consolidated financial statements of the Company include TGH and all of its subsidiaries in which the Company has a controlling financial interest. The Company determines whether it has a controlling financial interest in an entity by evaluating whether the entity is a voting interest entity (“VME”) or a variable interest entity (“VIE”) and whether the accounting guidance requires consolidation. All significant intercompany accounts and balances have been eliminated in consolidation.

In February 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2015-02, Consolidation (Topic 810) (“ASU 2015-02”). The Company adopted ASU No. 2015-02 on January 1, 2016 and there was no material impact on our consolidated financial statements (see Note 2(q) “Recently Issued Accounting Standards”).

When evaluating an entity for possible consolidation, the Company must determine whether or not it has a variable interest in the entity. Variable interests are investments or other interests that absorb portions of an entity’s expected losses or receive portions of the entity’s expected returns. The Company’s variable interests may include its decision maker or service provider fees, its direct and indirect investments and investments made by related parties, including related parties under common control. If it is determined that the Company does not have a variable interest in the entity, no further analysis is required and the Company does not consolidate the entity.

If the Company has a variable interest in the entity, it must determine whether that entity is a VIE or a VME.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

The Company considers the following facts and circumstances of individual entities when assessing whether or not an entity is a VIE. An entity is determined to be a VIE if the equity investors:

- do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support; or
- lack one or more of the following characteristics of a controlling financial interest:
- The power, through voting rights or similar rights, to direct the activities of an entity that most significantly impact the entity's economic performance;
- the obligation to absorb the expected losses of the entity; or
- the right to receive the expected residual returns of the entity.

The Company is required to consolidate a VIE if it is determined to have a controlling financial interest in the entity and therefore is deemed to be the primary beneficiary of the VIE. The Company is determined to have a controlling financial interest in a VIE if it has both the power to direct the activities of the VIE that most significantly impact the entity's economic performance and the aggregate indirect and direct variable interests held by the Company have the obligation to absorb losses or the right to receive benefits from the entity that could potentially be significant to that VIE.

For entities that do not meet the definition of a VIE, the entity is considered a VME. For these entities, if the Company can exert control over the financial and operating policies of an investee, which can occur if it has a 50% or more voting interest in the entity, the Company consolidates the entity.

The Company has determined that it has a variable interest in TAP Funding Ltd. ("TAP Funding") (a Bermuda company), a joint venture between the Company's wholly-owned subsidiary, its joint venture between Textainer Limited ("TL") (a Bermuda company) and TAP Ltd. ("TAP") in which TL owns 50.1% and TAP owns 49.9% of the common shares of TAP Funding, and that TAP Funding is a VME. The Company consolidates TAP Funding as the Company has a controlling financial interest in TAP Funding.

The Company has determined that it has a variable interest in TW Container Leasing, Ltd. ("TW") (a Bermuda company), a joint venture between the Company's wholly-owned subsidiary, TL, and Wells Fargo Container Corp ("WFC") in which TL owns 25% and WFC owns 75% of the common shares of TW, and that TW is a VIE. The purpose of TW is to lease containers to lessees under direct financing leases. The Company has determined that it is the primary beneficiary of TW by its equity ownership in the entity and by virtue of its role as manager of the vehicle, namely that the Company has the power to direct the activities of TW that most significantly impact TW's economic performance. Accordingly, the Company consolidates TW. The book values of TW's direct financing and sales-type leases and related debt as of June 30, 2016 and December 31, 2015 are disclosed in Note 7 "Direct Financing and Sales-type Leases" and Note 9 "Secured Debt Facilities, Revolving Credit Facilities, Term Loan and Bonds Payable, and Derivative Instruments", respectively.

(c) Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents are comprised of interest-bearing deposits or money market securities with original maturities of three months or less. The Company maintains cash and cash equivalents and restricted cash (see Note 11 "Commitments and Contingencies—Restricted Cash") with various financial institutions. These financial institutions are located in Bermuda, Canada, Hong Kong, Malaysia, Singapore, the United Kingdom and the United States. A significant portion of the Company's cash and cash equivalents and restricted cash is maintained with a small number of banks and, accordingly, the Company is exposed to the credit risk of these counterparties in respect of the Company's cash and cash equivalents and restricted cash. Furthermore, the deposits maintained at some of these financial institutions exceed the amount of insurance provided on the deposits. Restricted cash is excluded from cash and cash equivalents and is included in long-term assets.

(d) Intangible Assets

Intangible assets, consisting primarily of exclusive rights to manage container fleets, are amortized over the expected life of the contracts based on forecasted income to the Company. The contract terms range from 11 to 13 years. The Company reviews its intangible assets for impairment if events and circumstances indicate that the carrying amount of the intangible assets may not be recoverable. The Company compares the carrying value of the intangible assets to expected

9

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

future undiscounted cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying amount exceeds expected undiscounted cash flows, the intangible assets are reduced to their fair value.

The changes in the carrying amount of intangible assets during the six months ended June 30, 2016 are as follows:

Balance as of December 31, 2015	$20,250
Amortization expense	(2,746)
Balance as of June 30, 2016	$17,504

The following is a schedule, by year, of future amortization of intangible assets as of June 30, 2016:

Twelve months ending June 30:	
2017	$5,547
2018	5,204
2019	3,964
2020	2,342
2021 and thereafter	447
Total future amortization of intangible assets	$17,504

(e) Lease Rental Income

Lease rental income arises principally from the renting of containers owned by the Company to various international shipping lines. Revenue is recorded when earned according to the terms of the container rental contracts. These contracts are typically for terms of three to five years, but can vary from one to eight years, and are generally classified as operating leases.

Under long-term lease agreements, containers are usually leased from the Company for periods of three to five years. Such leases are generally cancelable with a penalty at the end of each 12-month period. Under master lease agreements, the lessee is not committed to leasing a minimum number of containers from the Company during the lease term and may generally return the containers to the Company at any time, subject to certain restrictions in the lease agreement. Under long-term lease and master lease agreements, revenue is earned and recognized evenly over the period that the equipment is on lease. Under direct financing and sales-type leases, a container is usually leased from the Company for the remainder of the container's useful life with a bargain purchase option at the end of the lease term. Revenue is earned and recognized on direct financing leases over the lease terms so as to produce a constant periodic rate of return on the net investment in the leases. Under sales-type leases, a gain or loss is recognized at the inception of the leases by subtracting the book value of the containers from the estimated fair value of the containers and the remaining revenue is earned and recognized over the lease terms so as to produce a constant periodic rate of return on the net investment in the leases.

The Company’s container leases generally do not include step-rent provisions, nor do they depend on indices or rates. The Company recognizes revenue on container leases that include lease concessions in the form of free-rent periods using the straight-line method over the minimum terms of the leases.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its lessees to make required payments. These allowances are based on management’s current assessment of the financial condition of the Company’s lessees and their ability to make their required payments. If the financial condition of the Company’s lessees deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

(f) Containers and Fixed Assets

Capitalized container costs include the container cost payable to the manufacturer and the associated transportation costs incurred in moving the containers from the manufacturer to the containers' first destined port. Containers purchased new are depreciated using the straight-line method over their estimated useful lives to an estimated dollar residual value. The Company estimates the useful lives of its containers to be as follows:

Container type	Estimated useful life (years)
Non-refrigerated containers other than open top and flat rack Containers	13
Refrigerated containers	12
Tanks	20
Open top and flat rack containers	14

Containers purchased used are depreciated based upon their remaining useful lives at the date of acquisition to an estimated dollar residual value. The Company evaluates the estimated residual values and remaining estimated useful lives on an ongoing basis. The Company has experienced a significant decrease in container resale prices as a result of the decreased cost of new containers. Based on this extended period of lower realized container resale prices, the Company decreased the estimated future residual value of its 40' high cube containers from $1,650 per container to $1,450 per container used in the calculation of depreciation expense, effective July 1, 2015. The effect of this change was an increase in depreciation expense of $4,595 and $9,253 for the three and six months ended June 30, 2016, respectively. Depreciation expense may fluctuate in future periods based on fluctuations in these estimates.

Fixed assets are recorded at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, ranging from three to seven years.

The Company reviews its containers and fixed assets for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The Company compares the carrying value of the containers to the expected future undiscounted cash flows for the purpose of assessing the recoverability of the recorded amounts. If the carrying value exceeds expected future undiscounted cash flows, the assets are reduced to fair value. In addition, containers identified as being available for sale are valued at the lower of carrying value or fair value, less costs to sell.

The Company evaluated the recoverability of the recorded amount of container rental equipment at June 30, 2016 and 2015. During both the three and six months ended June 30, 2016, there was no container impairment for containers that were unlikely to be recovered from lessees in default. During both the three and six months ended June 30, 2015, container impairment included $288 for containers that were unlikely to be recovered from lessees in default.

The Company recorded impairments during the three and six months ended June 30, 2016 of $19,484 and $36,776, respectively, and during the three and six months ended June 30, 2015 of $4,397 and $7,567, respectively, which are included in container impairment in the condensed consolidated statements of comprehensive (loss) income, to write-down the value of containers held for sale to their estimated fair value less cost to sell.

(g) Income Taxes

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Income Taxes (Topic 740) ("ASU 2015-17"). The Company early adopted ASU 2015-17 on January 1, 2016 using the retrospective method, which resulted in a reclassification of $1,203 current deferred taxes assets to non-current deferred taxes assets in the Company's condensed consolidated balance sheets at December 31, 2015 (see Note 2(q) "Recently Issued Accounting Standards").

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in the tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded when the realization of a deferred tax asset is deemed to be unlikely.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

The Company also accounts for income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs. If there are findings in future regulatory examinations of the Company's tax returns, those findings may result in an adjustment to income tax expense.

The Company records interest and penalties related to unrecognized tax benefits in income tax expense.

(h) Maintenance and Repair Expense and Damage Protection Plan

The Company's leases generally require the lessee to pay for any damage to the container beyond normal wear and tear at the end of the lease term. The Company offers a Damage Protection Plan ("DPP") to certain lessees of its containers. Under the terms of the DPP, the Company charges lessees an additional amount primarily on a daily basis and the lessees are no longer obligated for certain future repair costs for containers subject to the DPP. It is the Company's policy to recognize these revenues as earned on a daily basis over the related terms of its leases. The Company has not recognized revenue and related expense for customers who are billed at the end of their lease terms under the DPP. Based on past history, there is uncertainty as to the collectability of these amounts from lessees who are billed at the end of their lease terms because the amounts due under the DPP are typically re-negotiated at the end of the lease terms or the lease terms are extended. The Company uses the direct expense method of accounting for maintenance and repairs.

(i) Debt Issuance Costs

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, Interest-Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30) ("ASU 2015-03"). In August 2015, the FASB issued Accounting Standards Update No. 2015-15 ("ASU 2015-15") to clarify the exclusion of line-of-credit arrangements from scope of ASU 2015-03. The Company adopted both ASU 2015-03 and ASU 2015-15 on January 1, 2016, which resulted in a reclassification of $19,900 debt issuance costs associated with the Company's long-term debt (including current maturities) from prepaid expenses of $7,147 and other assets of $12,753 to long-term debt (including current maturities) in the Company's condensed consolidated balance sheets at December 31, 2015 (see Note 2(q) "Recently Issued Accounting Standards").

The Company capitalizes costs directly associated with the issuance or modification of its debt in short-term and long-term debt in the condensed consolidated balance sheets. Debt issuance costs are amortized using the interest rate method over the general terms of the related debt and the amortization is recorded in the condensed consolidated statements of comprehensive (loss) income as interest expense. Debt issuance costs of $1,550 and $4,151 were capitalized during the six months ended June 30, 2016 and 2015, respectively. For the three and six months ended June 30, 2016, amortization of debt issuance costs of $1,819 and $3,642, respectively, were recorded in interest expense. For the three and six months ended June 30, 2015, amortization of debt issuance costs of $1,764 and $3,622, respectively, were recorded in interest expense. When the Company's debt is modified or terminated, any unamortized debt issuance costs related to a decrease in borrowing capacity under any of the Company's lenders is immediately written-off. No unamortized debt issuance costs were written-off during the three and six months ended June 30, 2016. For the three months ended June 30, 2015, interest expense included $160 of write-offs of unamortized debt issuance costs related to the amendment of the TL's revolving credit facility. For the six months ended June 30, 2015, interest expense included $160 and $298 of write-offs of unamortized debt issuance costs related to the amendment of TL's revolving credit facility and the amendment of the Company's wholly-owned subsidiary, Textainer Marine Containers IV Limited's ("TMCL IV") (a Bermuda company), secured debt facility, respectively.

(j) Foreign Currency Transactions

Although substantially all of the Company's income from operations is derived from assets employed in foreign countries, virtually all of this income is denominated in U.S. dollars. The Company pays some of its expenses in various foreign currencies. For the three and six months ended June 30, 2016, $3,866 (or 26.6%) and $7,800 (or 26.7%), respectively, of the Company's direct container expenses were paid in up to 18 different foreign currencies. For the three and six months ended June 30, 2015, $2,957 (or 29.7%) and $5,748 (or 30.0%), respectively, of the Company's direct container expenses were paid in up to 17 different foreign currencies. The Company does not hedge these container expenses as there are no significant payments made in any one foreign currency.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

(k) Concentrations

The Company's customers are mainly international shipping lines, which transport goods on international trade routes. Once the containers are on-hire with a lessee, the Company does not track their location. The domicile of the lessee is not indicative of where the lessee is transporting the containers. The Company's business risk in its foreign concentrations lies with the creditworthiness of the lessees rather than the geographic location of the containers or the domicile of the lessees. Except for the lessees noted in the table below, no other single lessee made up greater than 10% of the Company's lease rental income for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Customer A	11.5 %	10.5 %	11.4 %	10.2 %
Customer B	11.2 %	10.8 %	11.4 %	10.7 %

Another customer (Customer C) accounted for 16.6% and 8.1% of the Company's gross accounts receivable as of June 30, 2016 and December 31, 2015, respectively. Customer A accounted for 8.9% and 9.7% of the Company's gross accounts receivable as of June 30, 2016 and December 31, 2015, respectively. Customer B accounted for 12.2% and 9.3% of the Company's gross accounts receivable as of June 30, 2016 and December 31, 2015, respectively. There is no other single lessee accounted for more than 10% of the Company's gross accounts receivable as of June 30, 2016 and December 31, 2015.

(l) Derivative Instruments

The Company has entered into various interest rate swap, collar and cap agreements to mitigate its exposure associated with its variable rate debt. The swap agreements involve payments by the Company to counterparties at fixed rates in return for receipts based upon variable rates indexed to the London Inter Bank Offered Rate ("LIBOR"). The differentials between the fixed and variable rate payments under interest rate swap agreements are recognized in realized losses on interest rate swaps, collars and caps, net in the condensed consolidated statements of comprehensive (loss) income.

As of the balance sheet dates, none of the derivative instruments are designated by the Company for hedge accounting. The fair value of the derivative instruments is measured at each balance sheet date and the change in fair value is recorded in the condensed consolidated statements of comprehensive (loss) income as unrealized losses on interest rate swaps, collars and caps, net.

(m) Share Options and Restricted Share Units

The Company estimates the fair value of all employee share options awarded under its 2015 Share Incentive Plan (the "2015 Plan"), amended and restated from the 2007 Share Incentive Plan (the "2007 Plan") on May 21, 2015, on the grant date. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods in the Company's condensed consolidated statements of comprehensive (loss) income as part of long-term incentive compensation expense and direct container expense.

The Company uses the Black-Scholes-Merton option-pricing model as a method to determine the estimated fair value for employee share option awards. The Company uses the fair market value of the Company's common shares on the grant date, discounted for estimated dividends that will not be received by the employees during the vesting period, for determining the estimated fair value for employee restricted share units. Compensation expense for employee share awards is recognized on a straight-line basis over the vesting period of the award.

(n) Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires the Company's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Company's management evaluates its estimates on an ongoing basis, including those related to the container rental equipment, intangible assets, accounts receivable, income taxes, and accruals.

TEXTAINER GROUP HOLDINGS LIMITED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

June 30, 2016 and 2015

(Unaudited)

(All currency expressed in United States dollars in thousands, except per share amounts)

These estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments regarding the carrying values of assets and liabilities. Actual results could differ from those estimates under different assumptions or conditions.

(o) Net income attributable to Textainer Group Holdings Limited common shareholders per share

Basic earnings per share ("EPS") is computed by dividing net income attributable to Textainer Group Holdings Limited common shareholders by the weighted average number of shares outstanding during the applicable period. Diluted EPS reflects the potential dilution that could occur if all outstanding share options were exercised for, and all outstanding restricted share units were converted into, common shares. Potentially dilutive share options and restricted share units were excluded from the computation of diluted EPS because they were anti-dilutive under the treasury stock method. A reconciliation of the numerator and denominator of basic EPS with that of diluted EPS is presented as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Share amounts in thousands	2016	2015	2016	2015
Numerator:				
Net (loss) income attributable to Textainer Group Holdings Limited common shareholders	$ (1,457)	$ 40,261	$ (4,851)	$ 75,566
Denominator:				
Weighted average common shares outstanding - basic	56,580	56,990	56,575	56,985
Dilutive share options and restricted share units				